

REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE THEMBISILE HANI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Thembisile Hani Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality could not provide sufficient appropriate audit evidence and explanations to support the assumptions used for the determination of the useful lives of buildings, infrastructure and community assets reviewed in the current year. Consequently, I was unable to confirm the valuation of these assets amounting to R43 959 550, R1 829 907 048 and R63 725 900, respectively, included in property, plant and equipment.
7. I was unable to verify existence of infrastructure assets due to limitations placed on the scope of my work by the municipality. Consequently, I was unable to confirm the completeness of infrastructure amounting to R1 829 907 048, included in property, plant and equipment.
8. The municipality did not maintain reliable records to confirm the rights of its infrastructure assets and buildings stated at R1 829 907 048 and R43 959 550, respectively, as disclosed in note 3 to the financial statements. Due to the nature of these assets, I was unable to verify the rights to these assets by any other means.
9. The municipality's records did not permit the application of alternative procedures. Accordingly, I could not obtain sufficient appropriate audit evidence as to the valuation, existence, rights and completeness of the closing balance of property, plant and equipment amounting to R2 016 301 120, as disclosed in note 3 to the financial statements.

Trade and other payables

10. The municipality did not maintain reliable records of retentions stated at R11 725 019, as disclosed in note 9 to the financial statements. I could not determine the valuation, completeness and obligations of the retentions by alternative procedures. Consequently, I was unable to determine whether any adjustment relating to retentions in the financial statements was necessary.

Trade debtors

11. The municipality could not provide supporting documentation to verify trade and other receivables amounting to R15 840 870. The carrying amount of these debtors has been fully impaired. The entity's records did not permit the application of alternative audit procedures. Consequently, I could not determine the valuation, completeness and rights of trade debtors.

Revenue

12. There was no system of internal control over revenue received from property rates on which I could rely for the purposes of my audit. There were also no satisfactory procedures that I could perform to obtain reasonable assurance that revenue had been properly recorded. Consequently, I was unable to obtain sufficient evidence on the completeness, accuracy and occurrence of property rates of R6 535 187 (2011: R3 394 967), as disclosed in note 10 to the financial statements.

13. There was no system of internal control over service charges on which I could rely for the purposes of my audit. There were also no satisfactory procedures that I could perform to obtain reasonable assurance that revenue had been properly recorded. Consequently, I was unable to obtain sufficient evidence on the completeness, accuracy and occurrence of service charges revenue of R32 701 908, as disclosed in note 10 to the financial statements.

Irregular expenditure

14. I could not satisfy myself as to the completeness of irregular expenditure of R11 653 281 (2011: R60 021 977), as disclosed in note 30 to the financial statements, as management only disclosed the amounts identified through the audit process.

Inventory

15. There was no system of internal control over inventory on which I could rely for the purposes of my audit. There were also no satisfactory procedures that I could perform to obtain reasonable assurance on the inventory balance. Consequently, I was unable to obtain sufficient evidence on the completeness, valuation and existence of the inventory not disclosed in the financial statements.

Provisions

16. The municipality did not assess the extent and cost of rehabilitating the landfill site. I was unable to verify the completeness and valuation of the provision for the landfill site stated at R8 617 991, as disclosed in note 8 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding the completeness and valuation of the provision for the landfill site.

Comparison of actual expenditure and budget

17. The municipality did not disclose an adequate comparison of actual expenditure and budget in accordance with GRAP 1, *Presentation of Financial Statements*. Note 32 to the financial statements does not include budgeted and actual amounts for income and expenditure. Consequently, I could not determine whether expenditure was incurred in accordance with the legally adopted budget.

Qualified opinion

18. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Statements of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

20. At 30 June 2012, the municipality had receivables for service charges totalling R44 651 056 that had been outstanding for more than 12 months. The recoverability of these amounts is doubtful.

Material underspending of the conditional grant

21. The municipality materially underspent its budget. At the date of this report, underspending amounted to R28 868 821. As a consequence, the municipality did not achieve its objectives relating to electricity, sanitation, roads and stormwater.

Additional matter

22. I draw attention to the matter below. My opinion is modified in respect of this matter.

Unaudited supplementary information

23. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

24. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

25. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
26. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
27. The material findings are as follows:

Usefulness of information

Presentation

28. Improvement measures for a total of 78% of the planned targets not achieved were not disclosed in the annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Measurability

29. The FMPPI requires that the time period or deadline for delivery be specified. A total of 78% of the targets relevant to electricity, sanitation, roads and stormwater were not time bound in specifying a time period or deadline for delivery. This was due to the fact that the accounting officer had not developed a performance management system.
30. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 31% of the indicators relevant to electricity, sanitation, roads and stormwater were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to a lack of key controls in the relevant systems of collation and storage of actual performance information.

Additional matter

31. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

Achievement of planned targets

32. Of the total number of 112 planned targets, only 52 were achieved during the year under review. This means that 54% of the total planned targets were not achieved during the year under review.

Compliance with laws and regulations

33. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements, performance report and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and supporting records provided, but some supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

35. The annual performance report for the year under review did not include a comparison with the previous financial year as well as measures taken to improve performance, as required by section 46(1)(b) of the MSA.

Strategic planning and performance management

36. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

Asset management

37. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
38. An effective system of internal control for assets, including an asset register, was not in place, as required by section 63(2)(c) of the MFMA.

Audit committee

39. The audit committee did not advise the council, accounting officer and management staff on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
40. The audit committee did not advise the accounting officer and management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

Expenditure management

41. The accounting officer did not take effective steps to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
42. Payments were not made within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure, as required by section 65(2)(e) of the MFMA.

Internal audit

43. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA as well as the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i), (ii) and (iii).
44. The internal audit unit did not audit the performance measurements on a continuous basis, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Revenue management

45. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Conditional grants received

46. The municipality did not evaluate its performance in respect of programmes funded by the allocation and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of DoRA.

Internal control

47. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

48. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
49. The accounting officer did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
50. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Financial and performance management

51. The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.
52. The accounting officer did not review and monitor compliance with applicable laws and regulations.
53. The accounting officer did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
54. The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

Governance

55. The accounting officer did not ensure that there was an adequately resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.

56. The accounting officer did not ensure that the audit committee promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor General

Nelspruit

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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